

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6196

BILL NUMBER: HB 1019

NOTE PREPARED: Feb 14, 2008

BILL AMENDED: Feb 14, 2008

SUBJECT: TRF Cost-of-Living Adjustment.

FIRST AUTHOR: Rep. Avery

FIRST SPONSOR: Sen. Meeks

BILL STATUS: CR Adopted - 2nd House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill: (1) provides a cost-of-living adjustment (COLA) in 2009 for certain members (or survivors or beneficiaries of members) of the State Teachers' Retirement Fund (TRF); (2) increases the minimum monthly disability retirement benefit paid to certain members of the Public Employees' Retirement Fund (PERF) and TRF from \$100 to \$180 and provides that a distribution of a thirteenth check by PERF or TRF must include distribution to members eligible for disability benefits.

(The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

Effective Date: (Amended) January 1, 2008 (retroactive); July 1, 2008.

Explanation of State Expenditures: (Revised) The bill does the following.

(1) Providing a one-time, permanent COLA adjustment to eligible retired TRF members, effective January 1, 2009, is shown in the tables below.

The amount of the COLA as a percent of the pension portion (excluding annuity) of a member's total benefit (including past post-retirement increases) will be as follows:

2.0% for members retired before July 2, 2000;
1.0% for members retired after July 1, 2000, and before July 2, 2006; and
0.0% for members retired after July 1, 2006.

The increase in the present value of benefits from the COLA provided in this bill totals \$73.1 M (\$69.2 M for the Pre-1996 Fund and \$3.9 M for the 1996 Fund). This represents the total fiscal impact attributable to

the bill and is shown in the second column of Table 1.

Table 1. Increase in Present Value of Future Benefits from COLA.			
	COLA Provided in Bill (2%/1% on 1/1/2009)	Amount Recognized in Valuation (1% on 1/1/2009)	Net Increase Over 1% Assumption
Pre-1996 Fund	\$69,221,256	\$44,411,689	\$24,809,567
1996 Fund	\$ 3,878,383	\$ 3,084,193	\$ 794,190
Total	\$73,099,639	\$47,495,882	\$25,603,757

The fund affected for the Pre-1996 Fund is the state General Fund. For the 1996 Fund, school corporations contribute a percentage of payroll, currently 7.25%.

The increases in projected benefit payments through FY 2011 are shown in Table 2 and represent the difference between the projected benefit payments with the proposed COLA and the projected benefit with no COLA. This table should be compared with the second column in Table 1, above.

Table 2. Estimated Increase in Projected Benefit Payments				
	FY 2008	FY 2009	FY 2010	FY 2011
Pre-1996 Fund	\$0	\$4,494,590	\$8,737,703	\$8,475,295
1996 Fund	\$0	\$ 138,405	\$ 269,482	\$ 263,087
TOTAL	\$0	\$4,632,995	\$9,007,185	\$8,738,382

(2) *Minimum Monthly Disability Retirement Benefit for TRF*: Increasing the minimum monthly disability retirement benefit paid to certain members of TRF from \$100 to \$180 will have the following impacts. There are currently 17 TRF retirees receiving disability benefits less than \$180 per month. The annual cost to TRF as a result of the increase in the amount of benefits paid each year is \$6,360. The present value of benefits is estimated at \$85,800

(3) *Minimum Monthly Disability Retirement Benefit for PERF*: Increasing the minimum monthly disability retirement benefit paid to certain members of PERF from \$100 to \$180 will have the following impacts.

\$180 Minimum Monthly for Disabilities	State	Political Subdivisions	Total
Increase in Unfunded Accrued Liability	\$2.89 M	\$3.89 M	\$6.78 M
Increase in Annual Funding (in \$)	\$223,000	\$299,000	\$522,000
Increase in Annual Funding (as % of Pay)	0.01%	0.01%	0.01%
Decrease in Funded Status	No Decrease from 98.8%		

(Revised) Background Information: The June 30, 2007, valuation for TRF included an assumed 1% annual compound COLA in accordance with IC 5-10.4-2-4 (b). The third column in Table 1 shows the estimated increase in the present value of future benefits resulting from this 1% COLA assumption, and the final column in Table 1 shows the net increase in the present value of future benefits over the assumed 1% COLA that would be shown in the June 30, 2007, valuation upon passage of this bill.

[According to IC 5-10.4-2-4 (b), "*The actuarial investigation and the board shall include in the determination of the liability, contribution rate, and appropriation the amount necessary to fully fund any past and estimated future cost of living increases for members of the pre-1996 account and the 1996 account, amortized over thirty (30) years. The actuary shall consult with the budget agency in making this determination.*"]

Explanation of State Revenues:

Explanation of Local Expenditures: See *Explanation of State Expenditures*, above.

Explanation of Local Revenues:

State Agencies Affected: TRF; PERF.

Local Agencies Affected: School corporations with members in the Teachers' Retirement Fund; local units with members in the Public Employees' Retirement Fund.

Information Sources: Julia Pogue, Chief Financial Officer, TRF, 317-234-1591; Doug Todd of McCready & Keane, Inc., actuaries for PERF, 317 576-1508.

Fiscal Analyst: James Sperlik, 317-232-9866.

DEFINITIONS

Cost-of-Living Adjustment - An across-the-board increase (or decrease) in wages or pension benefits according to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index (CPI).

Present Value— The present value (sometimes called actuarial present value) of an amount or series of amounts payable or receivable in the future is their current worth after discounting each such amount at an assumed rate of interest and adjusting for the probability of its payment or receipt.

Unfunded Actuarial Liability -The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.